

## Message Text

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14

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 USIA-15 PRS-01 DRC-01

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R 190510Z DEC 73

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 9038

INFO AMEMBASSY TAIPEI

AMEMBASSY SEOUL

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DEPARTMENT PASS TREASURY FOR CROSS AND LEE

E.O. 11652: N/A

TAGS: EFIN, ETRD

SUBJECT: EFFECT OF US DOLLAR DEVALUATION ON HK EXPORTS AND TO  
IMPORTS FROM US

1. TREASURY REPRESENTATIVE WAS GIVEN ON CONFIDENTIAL BASIS, BY  
HKG ECONOMIST, STUDY BEHAVIOR OVERALL HK FOREIGN TRADE (EXCLUDING  
RE-EXPORTS) AND TRADE WITH US IN TERMS OF PRICE AND VOLUME CHANGES.

2. TABLE BELOW COMPARES PERCENTAGE CHANGES HK EXPORTS WITH EXPORTS  
TO US AND PERCENTAGE CHANGES TOTAL IMPORTS WITH IMPORTS FROM US  
FOR FIRST THREE QUARTERS OF 1973 COMPARED TO SAME PERIOD 1972.

I. OVERALL EXPORTS                      EXPORTS TO US

VOLUME 5.8                                -1.5

UNIT VALUE 15.5                              12.0

TOTAL VALUE 22.0                             10.4

II. OVER ALL IMPORTS                      IMPORTS US

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VOLUME 8.8                                21.8

UNIT VALUE 14.8	3.6
TOTAL VALUE 24.6	27.0

3. HONG KONG DOLLAR HAS APPRECIATED ABOUT 16 PERCENT VIS-A-VIS US DOLLAR SINCE DECEMBER 1971, I.E., WHEN US DOLLAR DEVALUED IN DECEMBER 1971 AND FEBRUARY 1973, HK DOLLAR APPRECIATED BY SAME AMOUNT. SINCE FEBRUARY IT HAS FLOATED WITH US DOLLAR STAYING CLOSE TO ITS PARITY OF HK \$5.08 EQUALS US\$1.00 EXCEPT DURING JULY WHEN HK DOLLAR ROSE TO ITS UPPER INTERVENTION POINT AS US DOLLAR FELL AGAINST COMMON MARKET CURRENCIES AND YEN.

4. TABLE CLEARLY INDICATES THAT VOLUME HK EXPORTS DECLINED AT TIME WHEN US ECONOMY BOOMING AND VOLUME OF HK EXPORTS ROSE ABOUT 6 PERCENT TO OTHER DESTINATIONS. EXPORT PRICES ROSE 3.5 PERCENT LESS TO US THAN TO OTHER COUNTRIES PRESUMABLY TO MEET COMPETITION AND BECAUSE OF GREATER BUYER RESISTANCE. VALUE OF HK EXPORTS (IN HK\$) TO US HAS RISEN ONLY HALF AS FAST SO THAT TREND IS CLEARLY VISIBLE IN DECLINING US SHARE OF MARKET.

5. IN CONTRAST TO EXPORTS, IMPORTS FROM US ARE GROWING, IN QUANTITATIVE TERMS, MORE THAN TWICE AS FAST AS IMPORTS FROM ALL SOURCES. BUT PRICES OF US PRODUCTS WERE RISING ONE QUARTER AS FAST OVERALL IMPORT PRICES. IN FACT, UNIT VALUES OF RAW MATERIALS AND CAPITAL GOODS FELL 3 PERCENT AND 4 PERCENT, RESPECTIVELY. THESE TWO MOVEMENTS ABOUT OFFSET EACH SO THAT THE VALUE OF IMPORTS FROM US INCREASED ONLY SLIGHTLY FASTER THAN FROM OTHER COUNTRIES, I.E., US SHARE OF IMPORTS ROSE ONLY SLIGHTLY.

6. WITH RESPECT TO MAJOR CATEGORIES HK EXPORTS OF CLOTHING HAS BEEN HAREDEST HIT, DECLINING 8 PERCENT IN VALUE COMPARED TO NO CHANGE FOR TOTAL EXPORTS IN THIS CATEGORY. THE COMPARABLE FIGURE FOR TEXTILE FABRICS ARE -1.0 PERCENT COMPARED TO PLUS 6.0 PERCENT. ON OTHER HAND TRANSISTOR EXPORTS ARE DOING VERY WELL PLUS 16 PERCENT COMPARED PLUS 15 PERCENT WHILE ELECTRONIC COMPONENTS ROSE 35 PERCENT TO US COMPARED TO 50 PERCENT TO ALL COUNTRIES. THE VERY LARGE "OTHER CATEGORY" WHICH INCLUDES TOYS, WIGS, ARTIFICIAL FLOWERS, ETC., FELL 2 PERCENT TO US WHILE RISING 11 PERCENT TO ALL COUNTRIES.

7. IT IS CLEAR THAT THE CHANGE IN EXCHANGE RATE RELATIONSHIPS LIMITED OFFICIAL USE

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BETWEEN HK AND US HAS HAD A MARKED EFFECT ON VALUE OF EXPORTS AND IMPORTS BETWEEN THE TWO COUNTRIES IN THE DIRECTION EXPECTED: ACCELERATION OF US EXPORTS TO HK AND SLOWDOWN OF HONG KONG EXPORTS TO US. THE US EXPORT PERFORMANCE IS RATHER REMARKABLE (PLUS 22 PERCENT) BUT BECAUSE MOST US DEVALUATION BENEFIT HAS BEEN PASSED TO LOCAL BUYERS IN FORM RELATIVELY STABLE PRICES, US EARNINGS HAVE NOT RISEN MUCH FASTER THAN THOSE OF OTHER EXPORTERS TO HK (PLUS 27 PERCENT COMPARED TO PLUS 25 PERCENT).

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** DOLLAR, EXPORTS, IMPORTS, FOREIGN TRADE, DEVALUATIONS, TRADE DATA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 DEC 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** martinjw  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973HONGK12733  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** HONG KONG  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1973/newtext/t19731216/aaaaalur.tel  
**Line Count:** 116  
**Locator:** TEXT ON-LINE  
**Office:** ACTION TRSE  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** martinjw  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 27 JUL 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <27-Jul-2001 by shawdg>; APPROVED <20 FEB 2002 by martinjw>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EFFECT OF US DOLLAR DEVALUATION ON HK EXPORTS AND TO IMPORTS FROM US  
**TAGS:** EFIN, ETRD, HK, US  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005